# Creative Investing Techniques

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For several years now I have been on a cash basis. However, when I first got started investing I used creative financing. Most investors learn these techniques early on in their investing career, like I did, as a way to avoid the cost of borrowing money from institutional lenders (banks, savings and loans, etc.) and to overcome unaffordable monthly mortgage loan payments and poor or nonexistent credit. Even people with money realize, if they can purchase property with very little or no money down and keep their monthly payments low, then they will have made a good real estate investment even better. Please note though that when you borrow or leverage too much, your equity position will be smaller and your cashflow will be lower, too!

Leverage means making the most of what you’ve got. This could mean borrowing from yourself or others based on a little capital and good credit, or it could mean leveraging the circumstances of a seller or yourself. When it comes to real estate investing, leverage is the use of other people’s money. When the leverage is 100% (no money down), it means getting other people’s money to do everything. If you invest $100,000 to purchase a $1,000,000 property, and the property generates a spendable cashflow of $200,000 per year through leverage, then you have earned two times – or 200% per year – on your investment ($200,000 divided by $100,000). If you purchased the same property “no money down,” your return of $200,000 would have been infinite.

Are there people in the world who are willing to sell their properties creatively? Yes, there are. There may be more or less at different times depending on where we are in the business cycle. If interest rates are very high then you will see more sellers willing to be creative. If inventory is high then you will see the same thing.

## Sources for Creative Financing

As you progress through the individual “no money down” and creative financing techniques, you will be able to identify at least ten sources for creative financing. They are as follows:

1. The seller
2. The property itself
3. Investors
4. Partners
5. Tenants
6. Real estate agents and brokers
7. Your services and skills
8. Existing loans on the property
9. Unsecured paper and secured paper on equities (equity is the value of an asset minus any debt or money you owe on it)
10. Institutional lenders (banks, savings and loans)

A common limiting belief is that if you purchase property “no money down,” the seller gets no cash. This may be true with some of the techniques, but there are others that will allow the seller to leave the closing table with cash. However, the cash does not have to be yours.

Not all sellers who are willing to be creative are in distress. In fact, when sellers are able to walk away from a closing table with cash in their pockets, you can purchase a seller’s property more creatively, even though the seller may have initially been inflexible and interested in a more conventional sale.

The other important thing to remember is that, while a seller is inflexible today (or so the seller may say), that situation may well change within a few days or weeks. Sellers’ circumstances, emotions, and needs change rapidly. A seller may be inflexible today but very eager to sell the proper creatively tomorrow.

All of the “no money down” techniques are described in detail, so you can apply them immediately. Eventually, you may combine different aspects from several techniques.

Since interest rates rise and fall continuously, the percentages used in these examples were selected for illustrative purposes only. The actual rate you offer will vary, depending on the current interest rates and the flexibility of the seller. The values of property are for illustrative purposes as well. A good “bread and butter” property may have a fair market value of $150,000 to $200,000 in one area of the country, and a value twice that or more in another.

Just remember, the basic premise of real estate investing is that interest rates must be – and usually are – commensurate with value.

NOTE: There can be some limiting beliefs out there that you may encounter and have to overcome. One of them is that mortgages are no longer assumable. This is not true! VA mortgages are still assumable and so are many adjustable rate mortgages!

**Strategy 1: Pledged Asset Mortgage**

Bankers seldom come up with creative alternatives for buying property with no money down, but several banks in the United States have.

This is a technique I have used in a number of cases. Rather than paying the traditional down payment which most banks require, some are accepting other assets as collateral. The asset may be something you personally own, or it could be provided by a family member or friend. The lender does not get the right to convert the asset to cash, unless you go into default on their loan, and they have to foreclose.

Generally, banks will not charge more than market rates for these loans, so they become more attractive. While being administered, the program uses only certificates of deposit at credit unions or federally insured banks, since they only accept pledged collateral. For an owner-occupied property, the certificate of deposit must be at least 10% of the price paid for; and that number moves to 20% for an investor loan. The original owner of the CD gets the accrued interest. Once a payment history begins, and/or the agreed upon minimum equity position is achieved, the CD is released to the person who pledged it.

I am convinced some banks – on a case-by-case basis – would be willing to accept a pledged asset, rather than a CD to a credit-worthy borrower. For example, banks are willing to accept a “pay-down” of interest rates by a seller of property. For a negotiated amount, a seller could pay down the interest rate on a bank loan for a period of several years, and the rate could be 3% or 4% below the current market rate.

Some banks allow a down payment to be gifted from a seller or a family member of the borrower. Based on the flexibility that some banks are showing, I believe there are banks which allow pledged assets other than CDs. For example, a vacant lot, a boat, fine jewelry, inventory in a business, or even accounts receivable may be considered. I knew one investor who persuaded a bank to issue a Letter of Credit to a seller, guaranteeing payment of a note he owed the seller 12 months later. This Letter of Credit was guaranteed by a mortgage on equity he had in another property.

If you do not have any cash for a down payment, then be creative in your negotiations with banks; suggest ways in which they might loan 100% of the purchase price of a property. Remember, bankers are schooled in more traditional ways of loaning money, but if you present a new and creative way – to obtain 100% financing – they may be open it.

**Strategy 2: Bank Loans and Other Creative Sources of Down Payments**

Banks and other types of lenders will make loans based on your signature, or perhaps, the equity you have in a car, boat, or other property. Demonstrate your ability to repay these loans by working with a few local banks. Start by borrowing small amounts and repaying the loans earlier than agreed. With this technique, building up a line of credit with two or three banks is not difficult.

You will also find the seller can be a good source to lend you the down payment. When the required down payment is only a few thousand dollars, or when you are a few thousand dollars short, a flexible seller may agree to a delayed down payment 6 to 12 months after closing. Offering the seller a high interest rate can help you do this. Many sellers would find a 12% to 15% interest rate attractive and might even spread the down payment over a longer period of time (for example, 24 to 48 months). On a relatively small amount of money, the higher interest rate does not actually cost you much more and it is tax deductible. One of my students just did this in Wisconsin!

**Strategy 3: Blanket Mortgage**

Another favorite of mine is the blanket mortgage. I did my first one of these with a small community bank. It was in the form of a commercial line of credit. A seller might be willing to sell “no money down,” taking back a mortgage for the entire equity of a property. However, many sellers are afraid the buyer will walk away from the property before building up a substantial equity, forcing the resale of the property all over again. If this happens, sellers are concerned they will receive the property back in a condition worse than when it was originally sold.

To overcome a seller’s fear, you could persuade them by offering additional collateral with a “blanket mortgage.” A blanket mortgage includes more than one property. You might use equity in your home, another property, or even an automobile under the terms of a blanket mortgage.

Caution: With the blanket mortgage the seller may be taking back for a term as long as five or ten years. Since you do not want to tie up your extra property that long, make certain that the mortgage contains terms that will allow you to release your home or other property from the mortgage, after you have made payments on time for a period of 6, 12, or 18 months.

When I did my first one, the lender documented everything including a lien on all the properties under the blanket but did not record the liens and wasn’t going to unless I started to get behind or go into default.

**Strategy 4: Using the Broker’s Commission**

I generally don’t like this because I am also a broker, too! However, I have been on both ends of this technique and it does work if presented properly. From time to time, you will come across a property listed by a broker that is being offered for a 10% down payment. Typically, the seller is asking for the 10% to cover the broker’s commission, as well as closing costs.

Brokers’ commissions are generally 5% to 7% of the purchase price. If a broker both lists and sells the property, the broker receives the entire commission. If another broker is involved, then usually the commission is split 50/50.

Borrowing a portion of the commission, or giving the broker a portion of the ownership in lieu of all or part of the commission, is sometimes possible, especially when dealing with a listing broker. If the listing broker is also the selling broker, the commission will not be split, and the broker will be in a better position to loan all or part of it to you.

If you find some initial reluctance from the broker, you might try to offer the broker a note for an amount larger than the commission. For example: if the broker’s commission is $15,000, you might consider offering an $18,000 promissory note. The note might bear interest at 12% with payments of 1% per month. In other words, every month you would pay $150 to the broker. At the end of the year you would have reduced (amortized) the note by 12%, or $1,800. The note could become due and payable in five to seven years. Generating all or part of the down payment this way, is inexpensive.

Before approaching an agent or broker about borrowing a commission, it is important to understand how commission splits are handled in a real estate office. When a seller lists a piece of property with a broker, the broker’s compensation is stated in the contract. It is usually computed as a percentage of the total selling price. Within a broker’s office, salespeople have a splitting arrangement with the broker. Generally, the splitting agreement (50/50; 60/40, etc.) is predicated on the salesperson’s annual productivity. While a seller will generally not know about internal splitting arrangements, an informed seller does know that the commission is always negotiable at the time the listing agreement is signed.

Brokers, beware! The one possible negative is when you are asked to partner with the consumer on a deal and make your commission your contribution. It all looks good on the front end but the risk may show up later if something goes wrong. If in this circumstance the consumer files a complaint and they are not a licensed real estate agent and you are, a hearing officer will often hold you to a higher standard. As a result they may hold you more accountable than the consumer.

Here is what this may look like. First, you have an agent who is creative and flexible AND knows how to work with investors – an Investor/Agent!

Broker’s commission is usually 5% to 7% of the purchase price.

Initially, ask the broker to loan all of his or her commission to you, secured by a note and mortgage, at a reasonable rate of interest, say 5%.

If necessary, offer the broker a note for a slightly higher amount and at a higher interest rate.

You have reduced the amount of cash needed to purchase a property.

In several instances, I know of students who have not only succeeded in persuading the broker to take a note for his or her commission, they have actually borrowed money from the broker. In one case, the broker went into his pocket for $10,000 to make the deal work. The broker believed in the property and was to receive a $14,000 commission if the sale was successful. He wrote a check to the buyer for $10,000, and in return, he received a $24,000 note secured by a mortgage on the property.

By the way, one of the advantages of you becoming a licensed broker yourself is that you can, in most cases, share in a portion (often up to 50%) of the commission. That certainly beats borrowing! Another angle related to becoming a broker is you may intentionally choose not to share in a brokerage commission (and let the broker know this); this gives the broker further incentive to work harder toward having the seller accept your offer. If you choose this strategy, you can still try to borrow the commission. At that time, you subtly imply to the broker: If he or she doesn’t want to lend you all or part of the commission, you would instead like to share in the commission.

**Strategy 5: Buy Low, Refinance High**

I used this technique dozens and dozens of times once I was on a cash basis. If you have access to sizable amounts of cash, this technique is excellent. You can sometimes buy properties for 75% to 80% of fair market value or less, from people who need to sell for all cash right away. I have bought properties for 50% of value using cash!

On one of the Superior Avenue properties, I was contacted by the brother of a city councilman who, like his brother, was also an investor. They asked if I could buy one of three properties they had under contract because they could only buy two. I looked at the property and quickly decided to go for it. They were closing in less than a week. I made my 50% offer and they took it. I paid very little in closing costs because the title company had already done all the work on all three properties, including the one I bought! Even after remodeling I more than doubled my investment in value, and cash flowed more than $1000 per month to boot! I also refinanced the property, getting all of my money back plus another $28,000 in cash. In other words I also utilized the prior technique!

Many professionals have cash available to invest under these circumstances. They have neither the time nor expertise to go into the marketplace to find properties like this. If you can, then enter into a working relationship with these types of people; it will generate a good yearly cashflow for yourself and your investor. A win/win situation is created for both of you.

**Strategy 6: Create a Note and Sell it for Cash**

Assume you locate a property that is on the market for $250,000 which has an existing $125,000 assumable mortgage. The seller has an equity of $125,000 and is asking for this amount in cash. The property has been on the market for four or five months – without selling – and the owner is getting anxious. Offer the seller $75,000 cash, contingent upon being able to locate a new second mortgage. You are, in effect, offering the seller $200,000 for the property ($125,000 mortgage assumed plus $75,000 cash). This is not at all a bad offer, considering the seller is asking $250,000, and the property has been on the market for four or five months. If the seller accepts, you will proceed to find a lender to loan $75,000 to you in return for a mortgage.

You may have to go to a private lender. Check the classified ad section in your local newspaper, or you can go to a local mortgage broker who represents private investors. Call one of these lenders; tell them you have a property that is valued at $250,000, has an existing $125,000 first mortgage on it, and you are in need of $75,000 cash. Ask them how large a note and mortgage would have to be; also inquire about the interest rate and term for them to give you the loan. Assume they respond by telling you they would need a $75,000 note and mortgage at 10% interest for a term of five years. You would then determine, by doing a financial analysis of the property, whether or not the net operating income would support the payments on this new second mortgage – with you assuming the existing mortgage. If it does, you would proceed with the transaction and buy the property with “no money down.”

This is what this will look like:

Asking price $250,000

Seller’s equity $125,000

Property has been on the market for an extended period and the seller is anxious.

Offer the seller $75,000 cash contingent upon locating a new second mortgage.

Find a lender to loan $75,000.

Look in classifieds of local newspaper for private lenders or go to a local mortgage broker.

Remember, if you are a Silver Level Member or higher of My Investment Services, you can access the Private Lenders Report for your area on demand any time for FREE! Email [Info@MyInvestmentServices.com](mailto:Info@MyInvestmentServices.com) for details.

Determine, through a financial analysis, if the NOI will support the assumable mortgage and a new second mortgage with the terms required by the lender.

The seller receives cash for the equity in the property.

You have a “no money down” transaction.

**Strategy 7: Defer a Portion of the Purchase Price**

In some areas of the country, local real estate prices are very high, making it nearly impossible to achieve a break-even or positive cashflow. This problem can be overcome in two ways: 1) Negotiate no-interest or low-interest financing by the seller, or 2) Defer a portion of the purchase price. The latter alterative is usually easier. This works great in places like San Francisco or Vancouver, B.C.

Assume a seller has a three-bedroom, two-bath home on the market for $1,000,000. There is an existing $500,000 assumable first mortgage on the property. In return for obtaining his or her purchase price, the seller is willing to carry back a mortgage for the balance at the going market rate of interest.

The fair market rent rate on the property is $8,000. You could offer to assume the first mortgage, and give the seller a second mortgage with two notes; one note for $250,000 at a market rate of interest and the second for $250,000, also fixed at a market rate of interest but with the interest deferred for five years. At that time, the notes – plus the unpaid interest on the second note – would become due. Or preferably, the first note would stay on the property, making only the free second note with deferred interest due.

Interest on $250,000, 6% simple interest per annum, for 5 years equals $18,000 per year.

Be sure that the deferred interest on the second note ($250,000) is only accumulated, not compounded. Otherwise, you will be paying interest on interest. That could cause the unpaid balance of the $250,000 note plus interest to escalate dramatically.

At the end of six years, you could refinance, paying off the first mortgage plus both notes or – most preferably – the second note only for $250,000 plus interest. Ideally, the seller’s first note for $25,000 and the second mortgage taken back would stay on the property. If the second mortgage is to stay on the property after refinancing, the mortgage would have to include a subordination clause that would be inserted at the time you buy the property and sign the mortgage.

If the rent rate will not support the first and second mortgage – for $250,000 – the interest on that note could be adjusted down, to a point where the property could support the payments. The second note would then be correspondingly increased.

**Strategy 8: Deposits, Rent Credits, and Real Estate Tax Credits**

I have done this a number of different ways to close on a property. At closing, you will receive a credit for unpaid real estate taxes. Real estate taxes are generally paid in arrears, meaning the seller is always behind in paying taxes. For example, real estate taxes for this year are due and paid sometime near the beginning of the following year. The buyer receives a credit for the real estate taxes, which have not yet been paid.

In the case of income property, security deposits are credited as well. Some landlords collect the final month’s rent at the time of signing the lease. By doing this, this rent is turned over to the buyer at closing. Finally, the buyer receives credit for part of the rent, which has been collected in the current month. For example, if you close on income property on the 10th of the month, you will receive credit for approximately two-thirds of the month’s rent. If you close on the first of the month, you will either receive the rents collected already by the seller, or you will immediately collect the rents yourself. Credits can be used to reduce the amount of cash required for the down payment.

Sometimes, these credits can be substantial. On a ten-unit building, there might be $10,000 in security deposits, an additional credit for unpaid real estate taxes of $5,000, and the last month’s rents of ten times the monthly rent rate. You can see that it would not be unusual for credits on a building this size to be as much as $25,000.

You should also remember that when buying property, you will have no expenses during the first 30 days. Since mortgage payments and other expenses – such as utilities – are paid in arrears (after you use the service) and rents are paid in advance, you will have one month’s rent that is not committed.

Let’s say you purchase a ten-unit building on the first of the month. You receive rents in the amount of $10,000. You receive a credit for security deposits of $10,000, and you receive a credit for the last month’s rents of $10,000. Assuming that real estate taxes are $5,000 per year, you receive a real estate tax credit of up to $5,000, depending on when the closing takes place.

If you are getting a new mortgage, the first payment will not be due until the 1st of the following month. You can use the second month’s rent to pay the first mortgage payment. If you were assuming an existing mortgage, where the payment is due around the 15th of the month, you could talk to the lender about moving the mortgage payment ahead to the 1st of the following month. You will probably have to pay one-half month’s interest, but you would benefit by receiving as much as one-half month’s rent payments. This extra cash could be used for a down payment, for fixing up the property, or your own personal use. Your total credit just for these items will be $35,000!

Because of this, you have substantially reduced the amount of cash needed to close on this building. These credits may very well be enough to make this a “cash back at closing” deal.

**Strategy 9: The FHA 203(b) Loan**

The loan known as the FHA 203(b), is the single-family mortgage insurance program most commonly used all over America. According to the FHA official site, the FHA 203(b) “may be used to purchase or refinance a new or existing 1- to 4-family home in both urban and rural areas including manufactured homes on permanent foundations. Typically, lenders offer terms at 15 or 30 years, and interest rates are negotiated between the borrower and lender.”

Borrowers who have looked at conventional mortgages and compared them with the FHA 203(b) learn several things. The 203(b) is easier to qualify for because the FHA backs the loan, giving protection to the lender.

Thanks to this protection, the FHA Frequently Asked Questions section at FHA.gov says, “…you don’t have to have a perfect credit score to get an FHA mortgage. In fact, even if you have had credit problems, such as a bankruptcy, it’s easier for you to qualify for an FHA loan than a conventional loan.”

FHA loans do not come with zero down payment offers, but the down payment that is required is comparatively lower than many conventional loans. FHA mortgages require a down payment as low as 3.5%, which the FHA allows to come from an employer, family member, or charitable organization in the form of a gift if the borrower chooses to accept outside help for the loan.

In spite of what some assume, the FHA does not set interest rates on FHA mortgages, but according to HUD, “FHA loans have competitive interest rates because the Federal government insures the loans. Always compare an FHA loan with other loan types.”

All FHA loan money comes from participating lenders and the FHA does not provide “direct financing.” But it does require agency approval before a bank can issue an FHA home loan – the FHA and HUD work with lenders to ensure quality, regulatory compliance, and fairness in the lending process.

There are plenty of other FHA insured home loans available besides the 203(b), it’s just one of many – but it’s the first thing many borrowers think of when they want to buy a home with an FHA mortgage – even if they don’t know the technical name for the loan.

**Strategy 10: Home Equity Loan**

This is one of the very first strategies I used when I started investing in real estate. It leverages the capital in your own home. Many lending institutions make loans secured with the equity in your home or other properties by up to 80% of their value or more. There was a time when you could get a loan of up to 125% of the value of your home. That also partially led to one of the biggest economic downturns in history! The interest rate is usually tied to the prime rate. Shop around… some lenders may offer a rate anywhere from 0.5% below prime to 4% over prime rate. Generally, you will get a better rate if you are borrowing a larger amount of money ($100,000 or more) than if you borrow a small amount.

The payoff period is often 5 to 20 years, depending upon the lending institution. Most institutions do not charge any points (the percentage of the loan the borrower must pay to the bank for making the loan – one point equals 1% of the loan amount). In addition, the originating costs of the loan are very small, and the interest paid may be tax deductible. If you get this in the form of a line of credit then you can use and reuse this source of capital over and over again!

**Strategy 11: Land Contracts (Agreements for Deed or Contract for Deed)**

This form of seller financing is quite popular in some parts of the country. It is most often used with the sale of vacant land or lots. In concept, it calls for the purchaser to pay for all or most of the property before he or she receives legal title. In its simplest form, a land contract works like a mortgage, except that the legal title does not pass until a predetermined and stipulated number of payments have been made.

Theoretically, it provides additional protection for the seller in the event of default. If the purchaser does not make the payments as agreed, then the land contract usually stipulates that the money paid – up to the date of default – is deemed to be rent for the period from the term of possession to the date of default. To clear the title if default occurs, a “Quit Claim Deed” should be given by the purchaser to the seller. This should be done at the time of purchase, to release the purchaser’s equitable interest in the property.

When a land contract is used, the contract will call for specific dollar payments. These are usually monthly with the money applied in the following order: 1) to interest on the purchase price; 2) to any applicable charges, such as real estate taxes, insurance, and special assessments; 3) to the unpaid principal balance of the purchase price. If the contract states that the legal title will pass before the principal balance is paid in full, then a “balloon” payment will usually become due. However, the seller could take back a note and mortgage in lieu of the “balloon” payment.

Some people believe a land contract provides a legal way around due-on-sale clauses found in many mortgages. Not so. The due-on-sale clause is triggered by any transfer of legal or equitable title to real estate. While legal title is not transferred with a land contract – until the stipulated number of payments have been made – equitable title has passed. From a practical standpoint, the due-on-sale clause is not triggered, because no deed has been conveyed and recorded, and insurance continues in force in the name of the seller. It is unlikely, but not impossible, that the lender would learn of the transaction.

Let’s look at an example. Assume that you find a two-family property that is on the market for $240,000. There is an existing first mortgage of $120,000 with monthly payments of $1,000. The mortgage is not assumable. The owner is asking for $40,000 cash down, and is willing to take back a “wrap-around” mortgage for $200,000 at 8%. Let’s say you are able to persuade the seller to accept $220,000 for the property. Rather than take legal title to the property and give the seller a “wrap-around” mortgage, the seller sells you the property on a land contract. Since land contracts protect a seller more, you have convinced the seller to accept a $20,000 down payment, consisting of 10 semi-annual payments of $1,000 each with no interest. You then agree you will pay the seller $200,000 at 8% interest only for five years. At that time, you will agree to take legal title to the property. With the added monthly payment for taxes and insurance, which we will assume to be $500, your total cash out of pocket will be $1,500 per month. You know that the two-family property will bring in a total income of $2,000 a month. If you add a 10% management fee and a $100 per month cost for maintenance, then you will have approximately $200 per month positive cashflow.

This is win/win for both parties. You are buying the property with little money down. The seller has the security of knowing he or she has not conveyed legal title of the property to you, and there is a positive cashflow.

If you use this technique to buy a property, there are words of warning. If the contract for deed is for an extended period of time, then a number of events could take place that might put you in a precarious position. If the property is mortgaged with a mortgage containing a due-on-sale clause, then it is possible – although unlikely – the lender will learn of the land contract sale and call the loan due, possibly demanding the loan be properly assumed with related fees and an adjustment of a higher interest rate. Your contract should contain language stating, if this happens, how you and the seller will handle this problem. A reasonable way is to have you and the seller agree to split any additional or increased costs that arise from this event.

Also, to protect yourself from the sellers’ divorcing, declaring bankruptcy, becoming mentally incompetent, or dying, you should have the seller execute a deed. The deed should be held by a reputable title company. Your monthly payments should be mailed to the title company, and when the agreed upon number of payments have been made, the title company will record the deed.

At the time you enter into the land contract, a title search should be done to make certain the sellers have clear title. Then – as mentioned earlier – after the contract has been signed, the contract itself or a memorandum of the land contract should be recorded in the public records of the county, where the property is located.

In order for this to work you need a seller who does not need cash at closing but would like monthly income and little risk.

The buyer has a property for almost “no money down.” In fact, with a security deposit and last month’s rent from a tenant located before the closing, the buyer may even put cash in his or her own pocket.

The buyer has “purchased” a property even with bad credit.

The buyer has a positive monthly income of over $200.

The seller has a small down payment, a monthly income, and has been relieved of ownership responsibilities while getting almost all of what they asked for!

**Strategy 12: Life Insurance Policy Loan**

This is actually one I learned from some of my wealthier clients. The cash value of whole life insurance policies earns an extremely low return. This money can often be borrowed at rates of 6% or less. You can borrow against your policy (or the policies of others) to acquire real estate.

If a deal requires a $100,000 down payment to purchase an investment property and you have whole life insurance of your own with a cash value of $100,000, you can borrow against the $100,000 and use this $100,000 as a down payment. You can also partner with someone who has a whole life policy and offer to pay them interest for the use of their whole life insurance value.

Since borrowing against a whole life insurance policy will reduce the pay-out at the time of death, you would want to take out a term life insurance policy for the policyholder in the same amount as you borrowed. If additional peace of mind is needed for the whole life policy owner, you could take out a term life insurance policy on your own life.

You can see that this type of situation is truly win/win/win. You buy the property with no money down. The policyholder has the same amount of insurance and makes a small profit on the borrowed amount. And, the life insurance agent sold a new term life insurance policy.

**Strategy 13: Lower the Price and Raise the Interest Rate**

My very first mentor showed this to me. It was in the early ’80s when interest rates were already very high and more people, including homeowners, were using this to buy the homes they lived in. It wasn’t just used by investors. A higher interest rate may encourage the seller to accept lower prices or lower down payments or both. This will also allow a seller to postpone a portion of capital gain.

For example, a seller has a property for sale at an asking price of $500,000. The property has an existing, assumable mortgage of $250,000, payable at the rate of $2,500 per month. The seller wants $100,000 cash at close, and will extend you a loan of $400,000 in the form of a mortgage at 10% interest.

Offer the seller $450,000 with no money down. Agree to take over the loan of $250,000 and pay 10% interest on the remaining $200,000 for a period of five years. The result is a monthly interest payment of $1,666.66 ($250,000 times 10% divided by 12 months) to the seller. If you pay this per month for interest, then the entire principal amount of $200,000 will be due in five years.

If the total monthly payments – for the first and second mortgage of $4,166 per month – result in a negative cashflow, then restructure the second mortgage so only a portion of the 10% interest is paid monthly. The balance would be accumulated but not compounded, and would be due along with the $200,000 at the end of five years. Then at the end of five years, refinance the entire debt using your equity as a down payment.

Buyer has a property for “no money down.” The monthly payments may be high, but restructuring the interest can help alleviate some of the burden.

The seller has received a good price and high monthly income.

**Strategy 14: Move a Private Mortgage from a Senior to a Junior Position**

Consider the following situation. A seller has a property on the market for $300,000. There is an existing private first mortgage on the property in the amount of $180,000.

Approach the private mortgage holder to see if the mortgage can be moved from a first position (senior) to a second position (junior) if you pay $60,000 in cash. Agree to pay the cash after a new first mortgage is secured. This will reduce the mortgage from $180,000 to $120,000. Next, get a new $180,000 first mortgage on the property; $60,000 of this will be the cash that goes to the private mortgage holder; the other $120,000 will go to the seller. This “no money down” technique works well when the private mortgage holder is not willing to discount the mortgage in return for a complete payoff.

If you own property that has a private first mortgage, you could use this same strategy to remove your equity for other investment purposes.

The seller receives $300,000 for the property and receives all cash for his or her $120,000 equity in the property.

The buyer has a “no money down” deal, a $180,000 new first mortgage, and a $120,000 second mortgage.

**Strategy 15: Obtain a New Mortgage to Pay Off Existing Loans and Provide Down Payment Money**

You can use this strategy when the seller owes nothing on the property, or when the amount the seller owes is not greater than 40% of the property’s value. However, you must have a flexible seller willing to help finance the property. I love working with sellers who owe nothing on their property. They are more willing to listen to creative strategies.

For instance, assume the seller of a $500,000 house has an existing loan of $100,000, but they are looking for a $150,000 down payment and willing to carry the financing for the balance of $250,000 ($500,000 less $100,000 less $150,000). Simply obtain a new first mortgage for $250,000, which can pay off the existing $100,000 mortgage and give the seller $150,000. Next, give the seller a second mortgage in the amount of $250,000. The $250,000 first mortgage – plus a $250,000 second mortgage – gives the seller his or her total asking price of $500,000.

A seller who may be reluctant to accept this offer, may ultimately agree to accept an offer with more cash up front. For example, obtain a new loan in the amount of $350,000, giving the seller a $100,000 larger down payment than expected, or a total of $250,000 ($350,000 new mortgage proceeds minus $100,000 old mortgage payoff).

The seller receives total asking price and the entire down payment needed. The buyer has a “no money down” deal.

Many banks, but not all, will want you as the purchaser to put some of your own cash in the transaction. If you have none, but do have equity in another property you own, then securing the second mortgage from the seller may satisfy the bank. Basically, you would say to the banker, “I am, in effect, using my equity in another property I own to borrow money from the seller of this property, and I’m using that money for my down payment.” Another alternative is you could bring in a partner who has equity in another property, which could be used to secure the seller’s mortgage.

An additional solution would be for the seller to transfer the property to you “as-is,” with the existing loan remaining on the property. Once the property has been deeded to you, you would then obtain a new first mortgage for $250,000 and complete the transaction as described. If you find bankers inflexible in making a new first mortgage loan under these circumstances, contact mortgage brokers. They frequently are more flexible than banks, but charge higher interest rates or more points.

**Strategy 16: Rental Participation**

More seasoned investors who are ready to retire are more likely to work with you using this strategy. You might persuade a seller to give you a “no money down” or low purchase, low-interest seller financing. You may even utilize a moratorium of interest, which is an agreement that no interest will be due on the seller’s note and mortgage for a specified period of time. You would agree to give the seller a portion of any rental increases.

Assume you are negotiating to purchase a property that rents for $1,000 per month or $12,000 per year. Offer the seller 10%, 15%, or even 25% of any annual rental income that exceeds $12,000 per year, excluding any forfeited security deposits. This money might go toward any unpaid interest, or it might be considered a “reward” for the seller agreeing to a low-interest loan. You might do this for a period of three to seven years. In essence, the seller participates in the risk as well as the rewards of the property.

**Strategy 17: Satisfy the Seller’s Needs**

Attempt to learn what the seller intends to do with the down payment. If it is going to be used to acquire something or pay a debt, then perhaps, you could acquire the item for him or her, and put it on your credit card. Or, you could assume a seller’s liability.

The seller might be using the cash received for the property to take a trip overseas, to purchase furniture, or even buy a new automobile. You could agree to pay for the trip or furniture or even lease an automobile for the seller. The seller may have outstanding bills, which are due to a department store or a professional person, such as a doctor. By personally contacting these people or places, you arrange to assume the repayment responsibility for the debt, or a discount could be obtained by paying the debt in full. This strategy offers many possibilities.

Never jump to any premature conclusions about the seller’s situation. This is a perfect example, where questioning the seller can net positive results.

As much as possible in any situation, try to gather as much information as you can. The solution will often present itself in the process of doing so!

**Strategy 18: Using Discounted Bonds**

If a seller is willing to assist in financing the property, then some collateral is usually required. Generally, this takes the form of the real estate that you are buying. Deep down, I am convinced that most sellers would be more comfortable having their notes secured by good quality bonds.

You’ll find private corporate bonds – listed in the financial section of major newspapers called New York Exchange Bonds – and U.S. government bonds in the *Wall Street Journal*. For tax-free bonds, you’ll need to contact a stock broker.

Find a good tax-free, zero-interest bond, such as a city, state, or county revenue bond, which will be due in nine or ten years. You will probably have to pay between $500 and $700 for one of these bonds, depending on interest rates at the time. But when they become due and payable at maturity in nine or ten years, they will yield $1,000. Since the bonds are tax-free, there will be no tax liability for the seller or you.

This strategy works best when you have a relatively low mortgage in relation to the property value. Let’s look at the following example. Assume that a seller has a 4-family property on the market for $200,000. The existing mortgage on the property is $50,000, and the seller has $150,000 in equity. The down payment the seller needs at closing is $20,000 cash, and the seller is willing to accept a $130,000 second mortgage due in ten years.

Ask the seller if good quality bonds securing the $130,000 note would be better than a second mortgage on real estate. Some sellers will agree to the bonds. You then offer to buy the property with the $20,000 down payment due in 90 days, and the $130,000 note secured by the bonds. Ask the seller to deed the property to you with the $150,000 equity; this will secure the $150,000 you owe to the seller with equity in. Once you are the owner, obtain a new $150,000 mortgage on the property.

The proceeds from the mortgage are used as follows: $50,000 to pay off the first mortgage; approximately $70,000 to buy the $130,000 worth of bonds due in nine or ten years; $20,000 goes to the seller; and you can put approximately $10,000 cash in your pocket.

Potential problems do exist though.

First, if the bonds are taxable, then the seller will have to recognize an annual gain as the bonds increase in value. Tell the seller this. To avoid the yearly recognition of taxable gain, you may want to use zero-coupon municipal bonds.

The second problem is unless the seller is willing to take zero interest on the note, then you will have to make interest payments each year, until the bonds mature. This will not present a problem as long as you budget properly. Don’t forget, you will receive cash at the closing.

It should be understood that we are not attempting to deal in an underhanded way or fool the seller. Everything should be spelled out and understandable to the seller. While the bonds are only worth approximately $70,000 today, they will be worth $130,000 in ten years – at the time the seller has agreed to receive the money. The seller’s only risk is loss of the interest, which you have agreed to pay in the meantime. To overcome this, you might agree to secure the interest payments with a mortgage on another property you own. If you have the cash, you could prepay several years’ interest. You could even buy a second zero-interest bond for that amount, which could be used as security for the interest you have agreed to pay. Be creative.

Seller receives $20,000 cash. The seller has bonds to secure the $130,000 note which is due in ten years. The buyer has equity in a property. Extra cash has been generated for the buyer.

**Strategy 19: Using Equity in One Property to Buy Another**

This requires you to create a promissory note and mortgage on existing equity you have in an asset (home, boat, investment property, automobile, vacant land, etc.), and use it as a down payment on another property.

Let’s say you find a duplex that is on the market for $120,000, and there is an existing $50,000 mortgage. The seller’s equity is $70,000 ($120,000 less $50,000). Create a promissory note and mortgage in the amount of $30,000, secured by equity in one of your assets. Use that as a down payment on the 2-family property, and ask the seller to take either a $40,000 second mortgage or a $90,000 “wrap-around” mortgage for the balance. (“Wrap-around” mortgages are discussed in the next strategy.) When you buy the 2-family property, you will immediately have $30,000 equity in this property because of the $30,000 mortgage, which is secured by another property that you used as a down payment.

The mortgage that you are creating on your existing asset should have a “substitution of collateral” clause, allowing you to later move that mortgage. For example, you might use equity in your own home to buy investment Property A; then, you use equity in A to buy B and B to buy C. With the substitution of collateral clause, you can move the mortgage from your own personal residence into your most recent purchase, Property C. If the seller of the 2-family property, Property A, is concerned about not receiving any cash at the time of close, then the note and mortgage can be converted into cash by selling it to someone else.

Buyer has $30,000 equity in the 2-family property and has once again bought “no money down.”

**Strategy 20: The Wrap-Around Mortgage**

Assume the following situation. A seller has a property with a fair market value (F.M.V.) of $250,000, and an existing assumable mortgage of $150,000 at 8% interest with payments of $1,270 per month. The seller’s equity is $100,000 ($250,000 less $150,000).

A classic, yet conventional, “no money down” way to buy the property would call for the buyer to assume the first mortgage of $150,000. Next, the buyer would give the seller a second mortgage for the $100,000 balance, at a mutually agreeable interest rate – suppose 10% – with payments of $1000 per month. The purchaser’s total payment would be $2,270 per month.

To avoid the cost and liability of assuming the existing mortgage, offer the seller a $250,000 “wrap-around” mortgage, payable at the rate of 10% interest, with payments of $2,225 per month. On the surface, it appears to be the same proposition, but look at the actual effect.

A “wrap-around” mortgage is a new mortgage which literally “wraps” around the old mortgage. By using a “wrap-around” mortgage, the buyer makes payments on the new mortgage directly to the seller, and the seller continues to make payments on the old mortgage. Since the payments on the new mortgage are larger than on the old mortgage, the seller keeps the difference.

In the “wrap-around” mortgage example, you will pay the seller annual payments of $26,700 ($2,225 times 12). The seller will pay annual payments of $14,700 ($1,225 times 12) on the first mortgage. The seller will keep the difference, or $12,000 per year ($26,700 less $14,700). The seller’s equity is $100,000, so the seller is actually netting 12% ($12,000 divided by $100,000) on the transaction. The first mortgage – because it is older and more of the monthly payment is being credited toward the principal balance – is being paid off at a faster rate than the “wrap-around” mortgage. Therefore, when the first mortgage is paid off in 20 years or so, the “wrap-around” mortgage will still have an unpaid balance of about $165,000. The seller’s equity has effectively grown from $100,000 to $165,000 and, in the meantime, has earned 12% annually; a win/win situation.

The seller keeps $12,000 in interest per year for a 12% return on his/her $100,000 equity. The seller’s mortgage is paid off in 20 years. The seller’s equity in the mortgage has grown from $100,000 to $165,000.

Buyer accomplishes a “no money down” deal. The buyer avoids the cost and liability of assuming the first mortgage from a bank.

**Strategy 21: Federal, State, and Local Real Estate-Related Programs**

PLEASE NOTE: These programs come and go. This is an example of what has been available at different times. I encourage you to contact your local, county, and state agencies to determine what is possible now.

Many cities and towns have real estate related programs which can assist you. All 50 states have housing programs. Here is a list of groups of people who benefit from these loans:

* First-time home buyer
* Lower or moderate income home buyer
* Disabled or handicapped person
* Minority woman
* American Indian
* Property with an environmental hazard
* Elderly
* Delinquent on mortgage payments
* Want to build low-cost rental units
* Neighborhood needs revitalization
* Migrant farm worker
* Live in a mobile home rental park
* Want to make home more energy efficient
* Live in home with dysfunctional plumbing
* Live in property with lead paint

The question is, how do you use these various programs? It would be an enormous task (and soon outdated) to try to list every single agency in every state. But with a little effort on your part, it should be a simple task to locate all the agencies and programs in your state, in which you might participate.

How can you achieve this? You can go to your local telephone company office or library, and find the telephone directory for your state capitol. From there, you can call the office of your local State Representative, asking if they can provide the names and addresses of the housing-related agencies. In addition, look at your local telephone directory for agencies that have the word ‘housing’ or ‘mortgage’ in the name. Contact the Human Services Department of your county movement, too; they can help determine which of the local programs you qualify for and which would benefit you most.

Do this research and obtain information about every program available; your goal is to find what might assist you personally or professionally in your role as a real estate investor. These agencies want you to take advantage of their resources. You pay for these programs through tax money; isn’t it time to benefit from that?

Every year, hundreds of millions of dollars in budgeted expenditures go unclaimed. This is primarily because people do not know about these programs, or they are too lazy to do some basic research. Even so, the government provides assistance in an amount of approximately $500 billion per year. The assistance takes many forms. There are loans with or without interest; there are loan guarantees for loans made through private lenders; there are grants that do not require repayment; there is unrestricted-use or specified direct payments to individuals; and there is insurance, which is designed to assure reimbursement for any losses sustained.

Be aware though, the government programs are constantly changing. Some are eliminated as new ones are added. While a given program may be technically active, from a practical standpoint, it may be inactive because of lack of funding by Congress.

**Federal Government Programs**

Some of the federal programs that would be most applicable are shown below along with the name of the office in Washington, D.C., that administers it and a brief description.

As of this writing here is a list of what the federal government is offering:

## Basic FHA-Insured Home Mortgage

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

This program can help individuals buy a single-family home. While U.S. Housing and Urban Development (HUD) does not lend money directly to buyers to purchase a home, FHA-approved lenders make loans through a number of FHA insurance programs.

### General Program Requirements

Home buyers or current homeowners who intend to live in the home and are able to meet the cash investment, the mortgage payments, eligibility and credit requirements, can apply for a home mortgage loan through an FHA-approved lender.

### Loan Terms

Please contact an FHA-approved lender for loan term information. To find an approved lender, please visit:

<https://www.hud.gov/program_offices/housing/sfh/lender/lenderlist>

### Your Next Steps

The following information will lead you to the next steps to apply for this benefit.

### Application Process

To obtain an FHA-insured mortgage, contact an FHA-approved lender:

<https://www.hud.gov/program_offices/housing/sfh/lender/lenderlist>

### Program Contact Information

To read more about the home buying process, go to:

<http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203b--df>

To contact a HUD Housing Counseling agency, go to:

<http://www.hud.gov/counseling/>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call: 1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Cash-Out Refinance Loan

### Managing Agency

Veterans Benefits Administration (VBA) <http://benefits.va.gov/benefits/>

### Program Description

The Department of Veterans Affairs (VA) *Cash-Out Refinance Loan* is for homeowners who want to trade equity for cash from their home. These loans can be used as strictly cash at closing, or to pay off debt, making home improvements, and paying off liens. The Cash-Out Refinance Loan can also be used to refinance a non-VA loan into a VA loan. VA will guaranty loans up to 100% of the value of your home.

### General Program Requirements

Persons who may qualify for VA-guaranteed loans include:

* Eligible Veterans / Servicemembers
* Current Reserve and National Guard members (after 6 years of creditable service)
* Certain surviving spouses

To be eligible, the Veteran/Servicemember must have been discharged under conditions other than dishonorable and meet length of service requirements.

As a requirement for a VA home loan, the Veteran, the Veteran’s spouse, or dependent child must certify occupancy for the property.

### Loan Terms

Market Interest Rate, VA funding fee, and no pre-payment penalties. Maximum loan term cannot exceed 30 years. No maximum loan amount.

### Application Process

To apply, you will need a valid Certificate of Eligibility (COE). There are several ways to obtain your COE:

* You may be able to obtain a COE online through [eBenefits](https://www.ebenefits.va.gov/ebenefits/homepage).
* If you are unable to obtain your COE through eBenefits, check with your lender. In most cases, your lender will be able to obtain a COE for you using the Automated Certificate of Eligibility (ACE) program.

For more information on this program, please visit the [Home Loans](http://www.benefits.va.gov/homeloans/) webpage.

### Program Contact Information

If you have questions:

* Visit the [Inquiry Routing and Information System](https://iris.custhelp.com/) (IRIS) website to search Frequently Asked Questions or ask a question online.
* Please contact a [Regional Loan Center](http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp) if you have detailed questions.

To apply for benefits and view your benefit status, open an eBenefits Premium account. eBenefits is a one-stop source for information on Department of Defense and Department of Veterans Affairs benefits and services. With a free Premium level eBenefits account, Veterans, Servicemembers and their family members can conduct self-service transactions such as checking compensation and pension claim status information, enrolling in GI Bill, and obtaining copies of civil service preference letters, military records (DD214), and other personal information. For further information and to register for a free Premium level account, visit the [eBenefits](http://www.ebenefits.va.gov/) website.

## Combination Mortgage Insurance for Manufactured Home and Lot

### **Managing Agency**

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

Federal Housing Administration (FHA) insures mortgage loans made by FHA-approved lenders to buyers of manufactured homes and the lots on which to place them.

### General Program Requirements

Buyers of manufactured homes who plan to use the home as their principal residence are eligible to apply for a home loan with an FHA-approved lender.

### Loan Terms

Please contact an FHA-approved lender for loan term information. To find an approved lender, please visit:

<http://www.hud.gov/ll/code/llslcrit.cfm>

### Application Process

To obtain an FHA insured mortgage, contact an FHA-approved lender: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to:

<http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/manuf146>

To contact a U.S. Department of Housing and Urban Development (HUD) Housing Counseling agency, go to: <http://www.hud.gov/counseling/>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call: 1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Direct Home Loans for Native Americans

### Managing Agency

Veterans Benefits Administration (VBA) <http://benefits.va.gov/benefits/>

### Program Description

The Native American Direct Loan (NADL) program makes home loans available to eligible Native American Veterans who wish to purchase, construct, or improve a home on Federal Trust land or to reduce the interest rate.

Veterans who are not Native American, but who are married to a Native American non-Veteran, may be eligible for a direct loan under this program.

### General Program Requirements

To obtain a NADL, the law requires that:

1. The applicant must be an eligible Veteran.
2. The tribal organization or other appropriate Native American group must be participating in the VA direct loan program. The tribal organization must have signed a Memorandum of Understanding with the Secretary of Veterans Affairs, that spells out the conditions under which the program will operate on its trust lands.
3. Apply for a Certificate of Eligibility.
4. The loan must be to purchase, construct, or improve a home on Native American trust land.
5. The Veteran must occupy the property as his or her primary residence.
6. The Veteran must be a satisfactory credit risk.

Commissioned Officers of the Public Health Service and National Oceanic and Atmospheric Administration are considered to be active duty members and Veterans, once discharged.

Length-of-service requirements apply, in most cases.

All prospective applicants are encouraged to first contact their local housing authority and VA to discuss their financial situation and obtain a general idea of whether or not they might qualify for a home loan.

For more information, please visit the [NADL program website](http://benefits.va.gov/homeloans/nadl.asp" \t "_blank).

### Program Contact Information

If you have questions:

* Visit the [Inquiry Routing and Information System](https://iris.custhelp.com/) (IRIS) website to search Frequently Asked Questions or ask a question on-line.
* Please contact a [Regional Loan Center](http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp" \t "_blank) if you have detailed questions.

To apply for benefits and view your benefit status, open an eBenefits Premium account. eBenefits is a one-stop source for information on Department of Defense and Department of Veterans Affairs benefits and services. With a free Premium level eBenefits account, Veterans, Servicemembers and their family members can conduct self-service transactions such as checking compensation and pension claim status information, enrolling in GI Bill, and obtaining copies of civil service preference letters, military records (DD214), and other personal information. For further information and to register for a free Premium level account, visit the [eBenefits](http://www.ebenefits.va.gov/) website.

## Energy Efficient Mortgage Insurance

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

This program helps homebuyers or homeowners save money on utility bills by helping them get loans to cover the cost of adding energy-saving features to new or existing housing as part of a Federal Housing Administration insured home purchase or refinancing mortgage.

The Federal Housing Administration's (FHA) Energy Efficient Mortgage (EEM) program recognizes that lower utility costs can help a homeowner pay a higher mortgage to cover the cost of energy improvements. Under the program, persons may add the cost of energy-efficient improvements to their loan amount.

### General Program Requirements

The borrower must qualify for the portion of the loan used to purchase or refinance a home. Borrowers are not required to qualify on the portion of the loan used for making energy-efficient upgrades. All FHA-approved lenders are eligible to offer EEM to persons who are purchasing or refinancing with an FHA-insured mortgage.

Borrowers must qualify for a home purchase or refinance under FHA’s minimum credit requirements. The energy-efficient improvements must be cost-effective, meaning that the total cost of the improvements must be less than the energy saved over the expected life of the improvements.

An estimate of energy savings must be determined by a home energy rating report that is prepared by an energy consultant using a Home Energy Rating System (HERS). The cost of the energy rating report and inspections may be financed with the cost-effective energy-efficient improvements.

### Application Process

To obtain an FHA insured mortgage, contact an FHA-approved lender who is participating in this program: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/eem/energy-r>

To contact a U.S. Department of Housing and Urban Development (HUD) Housing Counseling agency, go to: <http://www.hud.gov/counseling/>

To contact the Federal Housing Administration (FHA), please use one of the following methods: Visit: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing>

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call:

1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Home Mortgage Insurance for Disaster Victims

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

Through Section 203(h), the Federal Government helps survivors in presidentially-designated disaster areas recover by making it easier for them to get mortgages and become homeowners or re-establish themselves as homeowners.

### General Program Requirements

Individuals are eligible for this program if their homes are located in an area that was designated by the President as a disaster area and if their homes were destroyed or damaged to such an extent that reconstruction or replacement is necessary. Insured mortgages may be used to finance the purchase or reconstruction of a single-family home that will be the principal residence of the homeowner.

### Loan Terms

Please contact a Federal Housing Administration (FHA) approved lender for loan term information. To find an approved lender, please visit: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Application Process

The borrower’s application for mortgage insurance must be submitted to the lender within one year of the President’s declaration of the disaster. Applications are made only through a Federal Housing Administration (FHA) approved lending institution.

To obtain an FHA insured mortgage, or lookup lender information, contact an FHA-approved lender: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203h-dft>

To contact a U.S. Department of Housing and Urban Development (HUD) Housing Counseling agency, go to: <http://www.hud.gov/counseling/>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call:1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Home Rehabilitation Mortgage Insurance

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

### General Program Requirements

All persons who can make the monthly mortgage payments are eligible to apply. Cooperative units are not eligible.

### Loan Terms

Please contact a Federal Housing Administration (FHA) approved lender for loan term information. To find an approved lender, please visit: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Application Process

To obtain an FHA insured mortgage, contact an FHA-approved lender: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203k--df>

To contact a HUD Housing Counseling agency, go to: <https://entp.hud.gov/idapp/html/hecm_agency_look.cfm>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

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Washington, D.C. 20410

Call: 1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Home and Property Disaster Loans

### Managing Agency

U.S. Small Business Administration

<http://www.sba.gov>

### Program Description

The U.S. Small Business Administration (SBA) is responsible for providing affordable, timely, and accessible financial assistance to homeowners and renters located in a declared disaster area. Financial assistance is available in the form of low-interest, long-term loans for losses that are not fully covered by insurance or other recoveries.

Homeowners may apply for up to $200,000 to repair or replace their primary residence to its pre-disaster condition. The loan may not be used to upgrade the home or make additions to it, unless as required by building authority/code. In some cases, SBA may be able to refinance all or part of a previous mortgage (not to exceed $200,000) when the applicant does not have credit available elsewhere, has suffered substantial disaster damage not covered by insurance, and intends to repair the damage. SBA considers refinancing when processing each application. Loans may also be increased by as much as 20% of the verified losses (not to exceed $200,000) to protect the damaged real property from possible future disasters of the same kind. Secondary homes or vacation properties are not eligible for home disaster loans; however, qualified rental properties may be eligible for assistance under the business disaster loan program.

Renters and homeowners alike may borrow up to $40,000 to replace damaged or destroyed personal property such as clothing, furniture, appliances, automobiles, etc. As a rule of thumb, personal property is anything that is not considered real estate or a part of the actual structure. This loan may not be used to replace extraordinarily expensive or irreplaceable items, such as antiques, collections, pleasure boats, recreational vehicles, fur coats, etc.

### General Program Requirements

In order to qualify for this benefit program, homeowners and renters must have sustained physical damage and be located in a disaster declared county.

### Loan Terms

Disaster survivors must repay SBA disaster loans. SBA can only approve loans to applicants with a reasonable ability to repay the loan and other obligations from earnings. The terms of each loan are established in accordance with each borrower’s ability to repay. The law gives SBA several powerful tools to make disaster loans affordable: low fixed interest rates, long-terms (up to 30 years), and refinancing of prior real estate liens (in some cases). As required by law, the interest rate for each loan is based on SBA’s determination of whether an applicant has the ability to borrow or use their own resources to overcome the disaster.

The SBA can provide up to $200,000 to homeowners to repair or replace their primary residence. Homeowners and renters are eligible for up to $40,000 to help repair or replace personal property. There are no upfront fees or early payment penalties charged by SBA.

### Application Process

Apply online for disaster loan assistance at your own convenience through SBA’s secure [Disaster Loan Assistance](https://disasterloan.sba.gov/ela/) website. You may also send completed applications to:

Processing and Disbursement Center

14925 Kingsport Road

Fort Worth, Texas 76155

Disaster victims can also apply in person at any FEMA-State Disaster Recovery Center or SBA Disaster Loan Outreach Center and receive personal, one-on-one help from an SBA representative. To find a location near you or help applying by mail, please contact our Customer Service Center at 1-800-659-2955 or by e-mail at [DisasterCustomerService@sba.gov](mailto:DisasterCustomerService@sba.gov).

Homeowners and renters applying for assistance in a Presidential disaster declaration must first register with FEMA either online at [www.disasterassistance.gov](http://www.disasterassistance.gov/" \t "_blank) or by phone at 1-800-621-3362.

### Program Contact Information

For more information about the program or questions on how to apply, please visit: <https://disasterloan.sba.gov/ela/Information/HomePersonalPropertyLoans>

Or contact the program at: 1-800-659-2955, or [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov)

## Indian Home Loan Guarantee Program

### Managing Agency

Public and Indian Housing (PIH) <https://www.hud.gov/program_offices/public_indian_housing>

### Program Description

This grant provides and operates cost-effective, decent, safe and affordable dwellings for lower-income families through an authorized local Public Housing Agency (PHA).

### General Program Requirements

In order to qualify for this benefit program, you must be Native American/American Indian, need aid in obtaining decent, safe, and/or sanitary rental housing, and characterize your financial situation as low income or very low income.

### Application Process

Please visit the [Participating Lenders List](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/lender_list) to find an Approved Section 184 Lender.

Once you find an approved lender, they should prepare the documents and submit them to the Office of Native American Programs (ONAP) in Denver, Colorado.

### Program Contact Information

For more information regarding this program, please visit the [Section 184 Indian Home Loan Guarantee Program page](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184) on HUD’s website.

You may also call 1-800-561-5913, or visit the [Office of Native American Programs (ONAP) website](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih).

## Indian Home Loan Guarantee Program (Section 184)

### Managing Agency

U.S. Department of Housing and Urban Development <http://www.hud.gov/>

### Program Description

This program provides home ownership opportunities to Native Americans, Tribes, Tribally Designated Housing Entities (TDHEs), and Indian Housing Authorities on Indian land, through a guaranteed mortgage loan program available through private financial institutions.

### General Program Requirements

In order to qualify for this benefit program, you must be a Native American/American Indian in the process of buying a home that will be your primary residence. You or your family member(s) must also be enrolled in a federally recognized American Indian tribe or Alaska Native village.

### Loan Terms

Fixed Rate Financing with market rate of interest. Length of loan is 30 years or less. Payments are made monthly. The maximum loan amount is 150% of the Federal Housing Administration (FHA) lending limits for the area. There are no prepayment penalties.

### Application Process

A list of the U.S. Department of Housing and Urban Development (HUD) approved 184 lenders for financing homes is available online:

<http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/borrowers>

### Program Contact Information

For more information, please visit [HUD's Office of Native American Programs website](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih).

You may also call the program office at: [1-800-561-5913](tel:1-800-561-5913)

## Interest Rate Reduction Refinance Loan (IRRRL)

### Managing Agency

Veterans Benefits Administration (VBA) <http://benefits.va.gov/benefits/>

### Program Description

A Department of Veterans Affairs (VA) Interest Rate Reduction Refinance Loan (IRRRL) can be used to refinance an existing VA loan to lower the interest rate.

IRRRLs do not require credit underwriting and may include the entire outstanding balance of the prior loan, to include closing costs and up to two discount points. Please note that some lenders may require additional credit requirements for loan approval. Therefore, VA encourages you to contact multiple lenders to determine the best loan option to fit your needs.

### General Program Requirements

Persons who may qualify for this refinance loan include:

* Eligible Veterans
* Active duty Servicemembers
* Current Reserve and National Guard members (after 6 years of creditable service)
* Certain surviving spouses

To be eligible, the Veteran/Servicemember must have been discharged under conditions other than dishonorable and meet length of service requirements.

As a requirement for a VA home loan, the Veteran, the Veteran’s spouse, or dependent child must certify occupancy for the property.

### Loan Terms

Veterans can negotiate the interest rate with the lender on all loan types. A VA funding fee must be paid unless the Veteran is exempt due to receipt of disability compensation. The funding fee can be paid in cash or rolled into the loan. The Veteran, the spouse, or the child of an active duty Servicemember must certify their intent to occupy the property. VA does not require an appraisal to refinance a loan.

### Application Process

For more information on this program, please visit the [Home Loans](http://www.benefits.va.gov/homeloans/) webpage.

### Program Contact Information

Visit the [Inquiry Routing and Information System](https://iris.custhelp.com/) (IRIS) website to search Frequently Asked Questions or ask a question online, or contact a [Regional Loan Center](http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp) if you have detailed questions.

To apply for benefits and view your benefit status, open an eBenefits Premium account. eBenefits is a one-stop source for information on Department of Defense and Department of Veterans Affairs benefits and services. With a free Premium level eBenefits account, Veterans, Servicemembers and their family members can conduct self-service transactions such as checking compensation and pension claim status information, enrolling in GI Bill, and obtaining copies of civil service preference letters, military records (DD214), and other personal information. For further information and to register for a free Premium level account, visit the [eBenefits](http://www.ebenefits.va.gov/) website.

## Loan Management

### Managing Agency

Veterans Benefits Administration (VBA) <http://benefits.va.gov/benefits/>

### Program Description

For Veterans or Servicemembers who have a VA-guaranteed conventional or sub-prime loan, the Department of Veterans Affairs (VA) has a network of eight Regional Loan Centers that can offer advice and guidance during times of financial hardship.

Borrowers may visit the [Home Loans Information](http://www.benefits.va.gov/homeloans/) page, or call toll free: 1-877-827-3702 to speak with a VA Loan Technician. However, unlike when a Veteran has a VA-guaranteed home loan, VA does not have the authority to intervene on the borrower’s behalf for conventional loans. It is imperative that a borrower contact his/her mortgage servicer as quickly as possible when faced with financial hardship.

### General Program Requirements

Persons who may qualify for VA-guaranteed loans include:

* Eligible Veterans / Servicemembers
* Current Reserve and National Guard members (after 6 years of creditable service)
* Certain surviving spouses

Commissioned Officers of the Public Health Service and National Oceanic and Atmospheric Administration are considered to be active duty members and Veterans, once discharged.

Length-of-service requirements apply, in most cases.

### Loan Terms

The mortgage servicer has the primary responsibility for servicing the loan to resolve the default. When VA decides additional information or action is needed, VA initiates contact with the Veteran to offer financial counseling, discuss loss mitigation options that have been considered, and sometimes serve as an intermediary between the Veteran and mortgage servicer to negotiate a resolution to the default. VA then helps the servicer and the borrower to arrange an appropriate loss mitigation option, such as:

* Repayment Plan: The Veteran may pay a regular payment plus part of the delinquency each month over a period of time until the loan is brought current;
* Special Forbearance: Temporarily suspend payments to allow the Veteran time to sell the property or reinstate the loan;
* Loan Modification: Provide the Veteran a fresh start by adding the delinquency to the loan balance and establishing a new payment schedule;
* Refunding: VA can consider refunding (purchasing) the loan and modifying it to make the payments more affordable to the Veteran;
* Compromise Sale / Short Sale: The Veteran sells their home for an amount less than what is owed at current market value with VA paying the difference, up to the maximum guaranty on the loan; or
* Deed-in-Lieu of Foreclosure: The Veteran voluntarily deeds the property to the servicer to avoid the foreclosure process, with VA paying the difference between the payoff and the net property value.

For more information on this program, visit the [Home Loans Information](http://www.benefits.va.gov/homeloans/) page.

### Program Contact Information

If you have questions:

* Visit the [Inquiry Routing and Information System](https://iris.custhelp.com/) (IRIS) website to search Frequently Asked Questions or ask a question online.
* Please contact a [Regional Loan Center](http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp) if you have detailed questions.

To apply for benefits and view your benefit status, open an eBenefits Premium account. eBenefits is a one-stop source for information on Department of Defense and Department of Veterans Affairs benefits and services. With a free Premium level eBenefits account, Veterans, Servicemembers and their family members can conduct self-service transactions such as checking compensation and pension claim status information, enrolling in GI Bill, and obtaining copies of civil service preference letters, military records (DD214), and other personal information. For further information and to register for a free Premium level account, visit the [eBenefits](http://www.ebenefits.va.gov/) website.

## Manufactured Home Loan Insurance

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

Federal Housing Administration (FHA) insures mortgage loans made by private lending institutions to finance the purchase of a new or used manufactured home.

### General Program Requirements

All buyers who meet credit requirements and plan to use the manufactured home as their principal place of residence are eligible for the program.

### Loan Terms

Please contact an FHA-approved lender for loan term information. To find an approved lender, please visit: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Application Process

Buyers of manufactured homes may apply for a loan through an FHA-approved lender or through a lender’s approved manufactured home dealer.

To obtain an FHA insured mortgage, contact an FHA-approved lender: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/manuf14>

To contact a HUD Housing Counseling agency, go to: <http://www.hud.gov/counseling/>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call: 1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Property Improvement Loan Insurance

### Managing Agency

Federal Housing Administration (FHA) <https://www.hud.gov/program_offices/housing/fhahistory>

### Program Description

The Federal Housing Administration (FHA) makes it easier for consumers to obtain affordable home improvement loans by insuring loans made by private lenders to improve properties that meet certain requirements. Lending institutions make loans from their own funds to eligible borrowers to finance these improvements.

### General Program Requirements

Eligible borrowers include the owner of the property to be improved, the person leasing the property (provided that the lease will extend at least 6 months beyond the date when the loan must be repaid), or someone purchasing the property under a land installment contract.

### Loan Terms

Please contact an FHA-approved lender for loan term information. To find an FHA-approved lender, visit: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Application Process

To obtain an FHA insured mortgage, contact an FHA-approved lender at: <http://www.hud.gov/ll/code/llslcrit.cfm>

### Program Contact Information

To read more about this program, go to: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i>

To contact a HUD Housing Counseling agency, go to: <https://entp.hud.gov/idapp/html/hecm_agency_look.cfm>

To contact the Federal Housing Administration (FHA), please use one of the following methods:

Visit: [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/housing](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr)

Write:

U.S. Department of Housing and Urban Development

Federal Housing Administration

451 Seventh St., SW

Washington, D.C. 20410

Call: 1-800-CALL-FHA (1-800-225-5342) or via Federal Information Relay Service (w/TTY): 1-800-877-8339

Email: [answers@hud.gov](mailto:answers@hud.gov)

## Rural Housing Loans

### Managing Agency

U.S. Department of Agriculture <http://www.usda.gov/>

### Program Description

Direct and guaranteed loans may be used to buy, build, or improve the applicant’s permanent residence. New manufactured homes may be financed when they are on a permanent site, purchased from an approved dealer or contractor, and meet certain other requirements. Under very limited circumstances, homes may be re-financed with direct loans. Dwellings financed must be modest, decent, safe, and sanitary. The value of a home financed with a direct loan may not exceed the area limit. Assistance is available in the States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of Northern Mariana’s, and the Trust Territories of the Pacific Islands. Direct loans are made at the interest rate specified in [RD Instruction 440.1, Exhibit B (PDF)](https://www.rd.usda.gov/files/04401.pdf) (available in any Rural Development local office).

### General Program Requirements

In order to qualify for this benefit program, your property must be located in an eligible rural area. Applicants must have very low, low, or moderate incomes. Very low income is defined as below 50% of the area median income (AMI); low income is between 50 and 80% of AMI; moderate income is below 115% percent of AMI. Families must be without adequate housing, but able to afford the housing payments, including principal, interest, taxes, and insurance (PITI). Qualifying repayment ratios are 29% for PITI to 41% for total debt. In addition, applicants must be unable to obtain credit elsewhere, yet have an acceptable credit history. You must also be a U.S. citizen or permanent resident.

### Loan Terms

Direct loans are repaid over 33 years or 38 years for applicants whose adjusted annual income does not exceed 60% of the area median income, if necessary to show repayment ability. Payment assistance is granted on direct loans to reduce the installment to an “effective interest rate” as low as 1%, depending on adjusted family income. Payment assistance is subject to recapture by the government when the customer no longer resides in the dwelling. There is no funding provided for deferred mortgage authority or loans for deferred mortgage assumptions.

Guaranteed loans are amortized over 30 years. The promissory note interest rate is set by the lender. There is no required down payment. The lender must also determine repayment feasibility, using ratios of repayment (gross) income to PITI and to total family debt.

### Application Process

Interested applicants should contact their local [USDA Rural Development field office](http://offices.sc.egov.usda.gov/locator/app) for more information.

To apply for Direct loans obtain [Application Form (RD 410-4) (PDF)](http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD410-4.PDF) and [Release Form (RD 3550-1) (PDF)](http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD3550-1.PDF).

### Program Contact Information

For more information, contact your Rural Development office at: [202-720-4323](tel:202-720-4323%20)

## Rural Housing: Farm Labor Housing Loans and Grants

### Managing Agency

U.S. Department of Agriculture, <http://www.usda.gov/>

### Program Description

The Farm Labor Housing Loan and Grant program provides capital financing for the development of housing for domestic farm laborers. Farm Labor Housing loans and grants are provided to buy, build, improve, or repair housing for farm laborers, including persons whose income is earned in aquaculture (fish and oyster farms) and those engaged in on-farm processing. Funds can be used to purchase a site or a leasehold interest in a site; to construct housing, daycare facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction loan interest.

### General Program Requirements

Loans are made to farmers, associations of farmers, family farm corporations, Indian tribes, nonprofit organizations, public agencies, and associations of farmworkers. Typically, loan applicants are unable to obtain credit elsewhere, but in some instances, farmers able to get credit elsewhere may obtain loans at a rate of interest based on the cost of federal borrowing. Grants are made to farmworker associations, nonprofit organizations, Indian tribes, and public agencies. Funds may be used in urban areas for nearby farm labor. (This is the only Rural Housing Service rural service area exception.)

### Loan Terms

Loans are for 33 years at 1% interest. Grants may cover up to 90% of development costs. The balance may be a Farm Labor Housing Program loan.

### Application Process

Upon publication of a Notice in the Federal Register, a two-stage application process is used. In stage one, applicants submit a pre-application, which is used to determine preliminary eligibility and feasibility. Pre-applications selected for further processing will be invited to submit an application. The pre-application consists of SF-424.2, “Application for Federal Assistance (For Construction)” and the information listed in exhibit A-1 or A-2 of Rural Development regulations, 1944-D, as applicable.

### Program Contact Information

For more information, please visit the [Farm Labor Housing Loan and Grant program](http://www.rd.usda.gov/programs-services/multi-family-housing-rental-assistance) website.

To find out about availability of farm labor housing in your locality, contact your local Rural Development field office using the O[ffice Locator Tool](http://www.rurdev.usda.gov/recd_map.html).

## Rural Housing: Housing Repair Loans and Grants

### Managing Agency

U.S. Department of Agriculture, <http://www.usda.gov/>

### Program Description

The Rural Housing Repair Loans and Grants program provides loans and grants to very low-income homeowners to repair, improve, modernize, or to remove health and safety hazards in their rural dwellings. Loans are arranged for up to 20 years at 1% interest. Grants may be arranged for recipients who are 62 years of age or older and can be used only to pay for repairs and improvements to remove health and safety hazards. Loan/grant combinations may be arranged for applicants who can repay part of the cost. Very low-income for this program is defined as below 50% of the area median income.

### General Program Requirements

In order to be eligible for the loan program, you must be a homeowner who has very low income, and you must be a U.S. citizen or permanent resident who lives in a rural area. In order to be eligible for the grant program, you must meet the above requirements, and also be aged 62 years or older.

### Loan Terms

Loans of up to $20,000 and grants of up to $7,500 are available. Loans are for up to 20 years at 1% interest. A real estate mortgage is required for loans of $7,500 or more. Full title services are required for loans of $7,500 or more. Grants may be recaptured if the property is sold in less than three years. Loans and grants can be combined for up to $27,500 in assistance.

### Application Process

To apply for a loan or grant online go to [http://www.sc.egov.usda.gov](http://www.sc.egov.usda.gov/), or you may contact your State’s Rural Development field office using this office locator tool: <http://offices.sc.egov.usda.gov/locator/app>.

### Program Contact Information

For more information about the housing repair loan program, visit: <http://www.rd.usda.gov/programs-services/single-family-housing-repair-loans-grants>

More on Rural Development Housing & Community Facilities Programs at: [http://www.rd.usda.gov/programs-services](http://www.rd.usda.gov/programs-services" \t "_blank)

Other “no money down” strategies focus on using promissory notes to create cash. There will be situations where the seller must receive cash at closing, and there will be instances where it is possible for you to leave the closing with cash in your pocket. You may be re-reading the aforementioned, wondering how you provide cash to the seller when you have none.

Some sellers are in a position where they are not able to sell their properties, unless they actually receive cash at the closing. If you are using one of the strategies which does not allow the seller to receive cash then you might not be able to buy the property, unless you can show how to convert your offering note into cash. Let’s look at several ways that the seller might accomplish this.

**Strategy 22: Collateralize the Paper**

The note could be taken to a bank – with whom the seller has a good banking relationship – and pledged as security for borrowing money. While the seller may be paying 3% to 4% more than the amount of money received from you in interest, this is a negotiable point. Ultimately, if he or she collateralizes the note, then you may have to pay the seller the same interest rate that the seller will have to pay to a bank.

A variation of this strategy would involve you creating a note and mortgage on property which you currently own and have equity. In turn, you could use that note and mortgage as collateral for money.

**Strategy 23: Create Multiple Notes Using One Note as Collateral**

Suppose you have purchased a property, and you have given a $20,000 promissory note to a seller. If the seller does not need the entire $20,000, the seller could write a smaller note or several notes, using the $20,000 note as collateral. One new note might be written for $4,000, and it could be sold at a discount of 30% to generate $1,400 in cash. Another second new note for $4,000 could be used by the seller as a down payment to buy real estate. The seller of the two new notes would still have the original note for $20,000; they would continue to receive the interest income from it, and in turn, he or she could pay the interest on the two $4,000 notes. $12,000 of that note would be unencumbered and movable, possibly using it as collateral for additional notes.

**Strategy 24: Sell the Paper at a Discount**

There is an active market of investors eager to purchase notes at a discount. The sale of a note at a discount is not difficult, depending on its interest rate, terms, the credit-worthiness of the maker, and the strength of the collateral. This process is known as discounting a note. Remember, when you have a note that is paying a lower interest rate than current prevailing rates you will have to sell the note at a discount. On the other hand if you have a note that is paying a higher interest rate than current prevailing rates then you can sell the note for a premium!

**Strategy 25: Use the Paper as a Down Payment to Purchase Real Estate**

You, the buyer, might give the seller a note for $20,000, which is secured by a mortgage on the real estate you are purchasing from him or her. The seller could then use the note at its full face value to purchase another property.

As discussed, many sellers of property are glad to receive paper that is secured by real estate. The seller to whom you are giving the note will find it easier to use that note as a down payment than they might suspect. Once the new property is acquired, the seller could use any number of ways to take cash out of the equity in the new property.

**Strategy 26: Sell the Income from the Note**

Most people are aware when they receive a note, they have an asset in the amount of the note. What most people do not realize is that they really have two assets. One is the note itself, and two is the cashflow that comes each month or year from that note.

Assume that you gave the seller a $24,000 promissory note, bearing interest at 10%, payable $2,400 per year. That $2,400 per year income – which the seller is receiving – could be sold at a discount, or the seller could sell several years’ worth of income at a discount to generate cash. This strategy would leave the primary asset, the $24,000 note, untouched.

Investors who purchase “streams” of income like this, are generally looking for a minimum of 20% return on their investment. If you have a financial calculator, it is easy to determine the present value of 48 monthly payments. If not, then a “quick and easy” way to calculate the present value would be to calculate the total dollars, which would be received over a period of time, 48 months for example. Divide the time period – in this case 48 – by two to get an average amount of time, 24 months. In the above example, the $100 per month payment ($2,400 divided by 12) over 48 months totals $9,600. Half that amount would be $4,800, which would be received over an average period of time or 24 months.

These strategies are one step better than purchasing a property with no money down, because you can leave the closing table with cash in your pocket. The greater the amount of equity the seller has in a property, the smaller the debt, the better these strategies work.

While I have purchased millions of dollars’ worth of real estate over the course of my investing career, only a small fraction of these were done with myself leaving the closing table with cash. It is important to note that many, if not most of the strategies used in previous examples can be used to take cash out at closing, especially when two or more are combined.

**Strategy 27: Seller Rebates at Closing**

Let’s say you find a $200,000, four-family property with a mortgage balance of $80,000. Go to a lender and request a 55% mortgage, or in this case, $110,000. When mortgages are 50% to 60% of the property’s value, they are relatively easy to acquire. They are often called “no-doc” loans. The bank does not verify or document the information you give them. Instead, they rely only on your credit report and your equity in the property. The seller agrees once the underlying mortgage of $80,000 is paid, then the remaining balance of $30,000 will be split 50/50.

The seller pays off the $80,000 mortgage and has pocketed $15,000 in cash. Since the negotiated price for the property was $200,000, you still owe the seller $105,000, which will be received by the seller in the form of a second mortgage. While you have paid $215,000 for the property on paper, you put $15,000 in your pocket at the time of close.

If your credit is insufficient to obtain a “no-doc” loan from a bank, then consider going to a mortgage broker to obtain a privately financed loan on the property you are buying.

Another variation of this strategy would call for the seller to rebate cash at closing to fix up the property. In the example just described, the seller might rebate $15,000 to you at close, and you would still only pay $200,000 for the property.

When seeking to invest in real estate creatively, the bottom line is that you need to know the seller’s situation as thoroughly as possible; try to get into the seller’s mind, prior to making an offer.

* How will the seller use any cash received?
* Is there really a need for cash or just a want?
* Is the seller security-conscious?
* Why is the seller offering the property for sale?
* What is the seller’s attitude toward price vs. terms (would the seller take a higher price for the property in return for zero interest)?
* How desperate is the seller to sell the property quickly?

These are all questions that ideally need to be answered. Additional questions include:

* What is the offering price of the property relative to its value as determined by doing a survey of comparable property sales?
* Are there any “extras” included in the sale, for example, an extra lot, future, appliances or an automobile?
* If the property is rented, how do the rents compare to the true market value rent?
* What credits will you receive at close?
* Is there a broker involved in the sale or is it “F.S.B.O.” (For Sale by Owner)?
* What is the condition of the property?
* Are any mortgages assumable?
* What is the interest rate?
* What is the blended interest rate, if applicable?

# Lease Options

Here is another great strategy you can use to invest creatively. Most people are familiar with automobile leases, as more than 50% of new car transactions are now leases rather than sales.

At the end of the automobile lease period, typically two or three years, the lessee has an option to buy the car. During the lease, the “tenant” gets to test the car and see if it meets the driver’s needs. At the end of the lease, the lessee can either return the car to the “landlord” dealer or exercise the option to buy the car.

Real estate lease options are very similar, except the dollar amounts are larger.

Such realty transactions are a combination rental, sales, and finance for a fixed term, such as one year, three years, five years, or longer.

The longest lease option I have negotiated, as the buyer, was for 15 years. But I have heard of commercial lease options as long as 45 years. However, as a lease option realty seller, I prefer one-year lease options so I can “adjust” the monthly rent and the option purchase price annually.

Several years ago, a local residential real estate broker phoned to ask if I was interested in a lease option on a nice three-bedroom, two-bath house if I could act fast because his client was anxious to return to their home country. We agreed to meet the next morning at a nearby coffee shop.

The broker suggested I prepare a lease option offer, along the guidelines he outlined, so we could discuss it with the owner. As I filled in the blanks on the printed lease option form, the only non-issue was the $125,000 fair market value option price the owner insisted on receiving.

My next issue was the lease option term. Having been cut down on my previous 10-year lease option offers for other houses to five years or less, I was thinking big when I filled in 15 years.

Next, I decided to offer the owner $500 per month net rent. I agreed to pay his monthly mortgage payment, property taxes, insurance, and all necessary repairs. I also agreed to prepay one year’s net rent of $6,000. Also, I needed the right to sub-lease to a tenant.

When I got to the line on the lease option form for the rent percent to be credited to my purchase price when I exercise the option, I filled in 50%.

As for the realty broker’s commission, I agreed to pay half up-front and the other half if and when I exercised my purchase option.

The meeting went smoothly. The only debate was about the rent credit. Neither the broker nor I recall how we agreed on the odd number of 17%. The owner and I signed the lease option, the broker agreed to arrange title insurance (at my expense), and a few days later my lease option was recorded.

Thirteen years later, I elected to exercise my $125,000 purchase option. By then the owner had died of a heart attack and I acquired the title from his heir in Hong Kong. But that’s another story. Yes, the broker then received the remainder of his commission.

### When to Use a Lease Option

There are always more lease option buyers than sellers. Buyers understand the benefits. But most sellers don’t understand their equal or greater benefits.

Lease option property owners often don’t comprehend what their benefits include: continued income tax deductions such as mortgage interest, property taxes, and rental depreciation. If the option purchase price terms annually “adjust” to reflect rising property values, the seller can benefit from increased market-value appreciation, too.

Additional lease option benefits for sellers include an over-supply of eager lease option buyers; lease option tenants will pay higher-than-market rent in return for the rent credit toward the purchase price; tax-free, up-front option money until the option is exercised; lease option tenants will pay top dollar; and the lease option future owner tenant usually treats the house or condo extremely well.

### How Buyers View Lease Options

At the closing table a few years ago, a couple who bought their rental house from me on a lease option revealed how they viewed their five-year residency before I practically forced them to exercise their option.

The wife said their $1,500 per month rent seemed high, but she and her husband considered it as $1,000 very reasonable monthly rent, plus a $500 “forced savings account” for their rent credit toward the purchase price.

Lease option buyer advantages include: 1) up-front “option money” is smaller than a typical down payment; 2) lack of mortgage interest and property tax deductions are outweighed by the “forced savings” rent credit (typically 10% to 100% of rent paid); 3) the buyer can try out the home before buying; 4) the option purchase price is locked-in for the specified term; 5) the buyer can move in within a few days after signing the lease option.

### How to Sell Homes on Lease Options

Although most local home sales markets are currently quite strong, there are pockets of slow home sales. Whether you are a home seller, builder, or realty agent, a delayed lease option sale is better than no sale. Lease options work in all price ranges, especially when there is little cash buyer demand.

My most effective lease option newspaper classified ad is headlined “$10,000 MOVES YOU IN.” Of course, change that amount up or down for your situation. Then describe the house or condo benefits, the monthly rent, and keywords “Rent to Own” or “Lease option.”

Saturday and Sunday advertised open houses usually provide quick results. Be prepared with at least 100 information sheet flyers describing the home with an attached rental application form.

It’s best to insist on a $500 or $1,000 deposit check from serious prospects. Owners should then run credit checks on all lease option applicants before selecting the best qualified.

### How Buyers Can Create Lease Options

Most cities have few or zero lease options advertised. However, prospective lease option buyers can create their own by reading the “homes for rent” classified ads and offering a lease option when you find a house or condo you want to eventually buy, or running your classified ad under “homes wanted,” such as “Executive needs 4 BR, 2.5 BA home on five-year lease with option to buy. Excellent references. Call Gary at 123-456-7890.”

**SUMMARY**: Lease options offer major benefits for home sellers, buyers, and realty agents.

**Summary of Benefits to Seller**

* Price of property is at the top of market value range or based on a formula to include inflation.
* Option money received is tax deferred.
* If rent is not paid on time, the option is forfeited. (Thus, the rent is usually paid on time!)
* The tenant has “pride of ownership” and an incentive to take better care of the property.
* The rent, including option payments, is usually set at or above the fair market rent.

**Summary of Benefits to Buyer**

* Risk is reduced while financial leverage is increased.
* Option consideration is small compared to the value of the property.
* If the property is not worth more than the option price, the buyer can walk away from the contract.
* Buyer usually receives control and possession of the property.
* Purchaser could even generate profit from the property by leasing it to someone else.
* Consideration paid and any rent credits received.

**Sublease Income Property for a Profit**

What if you find a single-family home that is offered for sale, far for less than its fair market value. The property is being offered at $50,000 and its value is about $100,000. If rented, its fair market rent would be approximately $500 per month.

You could offer the seller a three-year lease option with payments of $550 to $600 per month. Credit toward the purchase price would be a minimum of $200 to $300 per month. You could sublease the property to a tenant for $600 per month; depending on the terms of your lease option, you could have a break-even cashflow. Even if you have to supplement the rental income with cash out of your pocket, it will probably only be temporary. Over the next three years, you could reasonably expect rents to go up at least 5% per year; by the end of the second year, you will almost certainly have a positive cashflow.

The benefits to the seller in this situation are as follows. Not only would the seller receive the asking price for the property, but all of the tax benefits of owning real estate would be retained, since the property is being leased and is now considered investment property. The portion of the monthly income that would be credited toward the purchase ($200 to $300) would be exempt from income tax, until the option is exercised or until the option expires.

The benefits for the buyer are obvious. While you may have only a break-even or a very small positive cashflow, you are receiving a $200 to $300 per month credit toward the purchase price; you are, in effect, banking money each month and the tenant is paying for it.

The buyer receives a $200 to $300 per month credit toward the purchase price. The tenant is, in effect, paying for this credit.

The buyer may even have a small monthly cashflow. It is possible that the property value will exceed the option price at the end of the option period. The seller receives the asking price for the property. Tax benefits would be retained on investment property. Non-taxable monthly income would be received until the exercise or expiration of the option.

**Protecting Yourself with Lease Options**

If you enter into a lease option agreement – without taking care or protecting yourself – then you might find the specific terms of the lease option binding, and it will be almost impossible to exercise. The following precautions are important.

*Record the Option:*

Anytime you enter into an option agreement with a seller, you should record the option or an affidavit and memorandum of agreement in the public records of the county. This protects you, the purchaser, more than it does a seller. It provides notice to the world that you have an option to buy the property. If the seller should sell the property to anyone during the option period, then the new purchaser will buy the property, knowing you have an option to buy the same property.

To record the option, it should be notarized. If the option agreement is signed before this notarization takes place, then the seller may be reluctant to later sign a second time, in front of a notary public. Make sure it is all done at the same time.

*Right to Sublease:*

Whether you plan to live in the property or not, you should always make certain that your lease option gives you the right to sublease the property to another tenant. That right is not inherent in a lease, unless specifically spelled out.

*Right to Assign:*

In some states, the right to assign a contract is protected by law. In other states, it is not. Assignment is the right to transfer the contract and all your rights to someone else. To avoid any misunderstanding or litigation, you should make sure that the right to assign the contract is spelled out in your lease option contract. If you do not exercise the option yourself, then you should have the right to sell it. Your “equity” in that property is valuable. After all, you have been paying rent each month and a portion has been allocated to the option price.

By providing you with the right to assign the contract, the seller also benefits. The seller does not have to find another buyer for the property. As you would expect, the lease option contract provided with your course gives you the right to assign.

*Right to Extend:*

Some lease option contracts will have a section which spells out the terms under which the option may be extended. Other contracts specifically say that the extension of the lease option is prohibited. Some contracts may be silent on this point. Regardless of what your lease option says or does not say, make certain that you have the right to extend the option period for at least one year. This extension clause could be added to the “lease option” contract or, if there is inadequate room, an “addendum” could be used.

# 1031 Exchanges

Whenever you sell business or investment property and you have a gain, you generally have to pay tax on the gain at the time of sale. IRC Section 1031 provides an exception and allows you to postpone paying tax on the gain if you reinvest the proceeds in similar property as part of a qualifying like-kind exchange. Gain deferred in a like-kind exchange under IRC Section 1031 is tax-deferred, but it is not tax-free.

The exchange can include like-kind property exclusively or it can include like-kind property along with cash, liabilities, and property that are not like-kind. If you receive cash, relief from debt, or property that is not like-kind however, you may trigger some taxable gain in the year of the exchange. There can be both deferred and recognized gain in the same transaction when a taxpayer exchanges for like-kind property of lesser value.

*Who qualifies for the Section 1031 exchange?*

Owners of investment and business property may qualify for a Section 1031 deferral. Individuals, C corporations, S corporations, partnerships (general or limited), limited liability companies, trusts and any other taxpaying entity may set up an exchange of business or investment properties for business or investment properties under Section 1031.

*What are the different structures of a Section 1031 Exchange?*

To accomplish a Section 1031 exchange, there must be an exchange of properties. The simplest type of Section 1031 exchange is a simultaneous swap of one property for another.

Deferred exchanges are more complex but allow flexibility. They allow you to dispose of property and subsequently acquire one or more other like-kind replacement properties.

To qualify as a Section 1031 exchange, a deferred exchange must be distinguished from the case of a taxpayer simply selling one property and using the proceeds to purchase another property (which is a taxable transaction). Rather, in a deferred exchange, the disposition of the relinquished property and acquisition of the replacement property must be mutually dependent parts of an integrated transaction constituting an exchange of property. Taxpayers engaging in deferred exchanges generally use exchange facilitators under exchange agreements pursuant to rules provided in the Income Tax Regulations.

A reverse exchange is somewhat more complex than a deferred exchange. It involves the acquisition of replacement property through an exchange accommodation titleholder, with whom it is parked for no more than 180 days. During this parking period the taxpayer disposes of its relinquished property to close the exchange.

*What property qualifies for a Like-Kind Exchange?*

Both the relinquished property you sell and the replacement property you buy must meet certain requirements.

Both properties must be held for use in a trade or business or for investment. Property used primarily for personal use, like a primary residence or a second home or vacation home, does not qualify for like-kind exchange treatment.

Both properties must be similar enough to qualify as “like-kind.” Like-kind property is property of the same nature, character, or class. Quality or grade does not matter. Most real estate will be like-kind to other real estate. For example, real property that is improved with a residential rental house is like-kind to vacant land. One exception for real estate is that property within the United States is not like-kind to property outside of the United States. Also, improvements that are conveyed without land are not of like-kind to land.

Real property and personal property can both qualify as exchange properties under Section 1031; but real property can never be like-kind to personal property. In personal property exchanges, the rules pertaining to what qualifies as like-kind are more restrictive than the rules pertaining to real property. As an example, cars are not like-kind to trucks.

Finally, certain types of property are specifically excluded from Section 1031 treatment. Section 1031 does not apply to exchanges of:

* Inventory or stock in trade
* Stocks, bonds, or notes
* Other securities or debt
* Partnership interests
* Certificates of trust

*What are the time limits to complete a Section 1031 Deferred Like-Kind Exchange?*

While a like-kind exchange does not have to be a simultaneous swap of properties, you must meet two time limits or the entire gain will be taxable. These limits cannot be extended for any circumstance or hardship except in the case of presidentially declared disasters.

The first limit is that you have 45 days from the date you sell the relinquished property to identify potential replacement properties. The identification must be in writing, signed by you, and delivered to a person involved in the exchange like the seller of the replacement property or the qualified intermediary. However, notice to your attorney, real estate agent, accountant, or similar persons acting as your agent is not sufficient.

Replacement properties must be clearly described in the written identification. In the case of real estate, this means a legal description, street address, or distinguishable name. Follow the IRS guidelines for the maximum number and value of properties that can be identified.

The second limit is that the replacement property must be received and the exchange completed no later than 180 days after the sale of the exchanged property or the due date (with extensions) of the income tax return for the tax year in which the relinquished property was sold, whichever is earlier. The replacement property received must be substantially the same as property identified within the 45-day limit described above.

*Are there restrictions for deferred and reverse exchanges?*

It is important to know that taking control of cash or other proceeds before the exchange is complete may disqualify the entire transaction from like-kind exchange treatment and make ALL gain immediately taxable.

If cash or other proceeds that are not like-kind property are received at the conclusion of the exchange, the transaction will still qualify as a like-kind exchange. Gain may be taxable, but only to the extent of the proceeds that are not like-kind property.

One way to avoid premature receipt of cash or other proceeds is to use a qualified intermediary or other exchange facilitator to hold those proceeds until the exchange is complete.

You cannot act as your own facilitator. In addition, your agent (including your real estate agent or broker, investment banker or broker, accountant, attorney, employee or anyone who has worked for you in those capacities within the previous two years) cannot act as your facilitator.

Be careful in your selection of a qualified intermediary as there have been recent incidents of intermediaries declaring bankruptcy or otherwise being unable to meet their contractual obligations to the taxpayer. These situations have resulted in taxpayers not meeting the strict timelines set for a deferred or reverse exchange, thereby disqualifying the transaction from Section 1031 deferral of gain. The gain may be taxable in the current year while any losses the taxpayer suffered would be considered under separate code sections.

*How do you compute the basis in the new property?*

It is critical that you and your tax representative adjust and track basis correctly to comply with Section 1031 regulations.

Gain is deferred, but not forgiven, in a like-kind exchange. You must calculate and keep track of your basis in the new property you acquired in the exchange.

The basis of property acquired in a Section 1031 exchange is the basis of the property given up with some adjustments. This transfer of basis from the relinquished to the replacement property preserves the deferred gain for later recognition. A collateral effect is that the resulting depreciable basis is generally lower than what would otherwise be available if the replacement property were acquired in a taxable transaction.

When the replacement property is ultimately sold (not as part of another exchange), the original deferred gain, plus any additional gain realized since the purchase of the replacement property, is subject to tax.

*How do you report Section 1031 Like-Kind Exchanges to the IRS?*

You must report an exchange to the IRS on Form 8824, Like-Kind Exchanges and file it with your tax return for the year in which the exchange occurred.

Form 8824 asks for:

* Descriptions of the properties exchanged
* Dates that properties were identified and transferred
* Any relationship between the parties to the exchange
* Value of the like-kind and other property received
* Gain or loss on sale of other (non-like-kind) property given up
* Cash received or paid; liabilities relieved or assumed
* Adjusted basis of like-kind property given up; realized gain

If you do not specifically follow the rules for like-kind exchanges, you may be held liable for taxes, penalties, and interest on your transactions.

### Beware of schemes

Taxpayers should be wary of individuals promoting improper use of like-kind exchanges. Typically they are not tax professionals. Sales pitches may encourage taxpayers to exchange non-qualifying vacation or second homes. Many promoters of like-kind exchanges refer to them as “tax-free” exchanges not “tax-deferred” exchanges. Taxpayers may also be advised to claim an exchange despite the fact that they have taken possession of cash proceeds from the sale.

Consult a tax professional or refer to IRS publications listed below for additional assistance with IRC Section 1031 Like-Kind Exchanges.

### References/Related Topics

* [Publication 544,](https://www.irs.gov/pub/irs-pdf/p544.pdf) Sales and Other Dispositions of Assets
* [Form 8824](https://www.irs.gov/pub/irs-pdf/f8824.pdf), Like-Kind Exchanges
* [Form 4797](https://www.irs.gov/pub/irs-pdf/f4797.pdf), Sales of Business Property

# Partnerships

Getting started flipping or buying rental properties can be very difficult for aspiring investors. The biggest problem for most investors is finding the money to flip or the down payment for rentals. In some cases an investor has a lot of money, but no time to find deals, renovate houses or perform the other tasks needed to invest in real estate. In other cases an investor may have the knowledge and time to invest, but no money. A partnership can be a mutually beneficial way to invest in real estate if done right.

I used to partner with my colleague Vince. It would have been really tough for me to flip houses or sell real estate without a partner to help with the financing and mentoring. But in some ways I think having a partner also held me back and provided a comfort zone that allowed to me to relax more than I should have. Having a partner in real estate deals can be a great way to get started, but if you don’t set things up right it can be a disaster and destroy relationships.

### How does a partnership on fix and flips work?

Many people want to flip houses. It appears to them to be a quick way to make a lot of money. I am approached by investors all the time who want to start flipping houses. Flipping is a very difficult business to get into, [especially if you have no money](https://investfourmore.com/2015/01/21/flip-houses-no-money/). It takes patience to find deals, it takes time to make repairs, it takes expertise and knowledge to learn your market. If it were easy to buy a house with none of your own money, fix it up real quick and sell it a couple of months later for a $30,000 profit, everyone would do it!

Most people who want to flip houses do not take the time needed to learn their market, save money, or [research the costs involved when flipping.](https://investfourmore.com/2014/06/10/costs-involved-fix-flipping-home/) If you want to flip houses, but need a partner to help fund you, you must bring something to the table. I don’t partner with people looking to flip houses, because I stay busy enough with my own deals and flips. If I were looking for a partner though, here is what I would want from them if I was the money source.

* **Local market knowledge:** I would want any investor to know what [neighborhoods have potential](https://investfourmore.com/2014/06/30/how-do-you-choose-a-good-neighborhood-to-buy-a-house-in/). What previous deals would have been good flips. What the target purchase price and sales price would be.
* **Know the costs**: Many investors underestimate the costs on a flip. Buying costs, carrying costs, repair costs, [selling costs](https://investfourmore.com/2014/04/14/how-much-does-it-cost-to-sell-a-house/) all need to be accounted for. I want details, not that a home “meets the [70% rule](https://investfourmore.com/2014/06/18/what-does-the-70-percent-rule-mean-when-flipping-houses/).”
* **How will you get the deal**: The hardest part of flipping is finding a deal with enough room to make a profit. [Are you using the MLS](https://investfourmore.com/2014/04/04/how-can-you-find-a-great-deal-on-a-house-on-the-mls-multiple-listing-service/) with a Realtor or direct marketing or something else?
* **What is my involvement**: Do I have to do any work in the transaction? Do I have to determine value, find contractors, or find the deal?
* **Who will do the work?** Will you make repairs yourself? [Will you hire a contractor or do you already have a contractor](https://investfourmore.com/2014/03/13/make-sure-contractor-hire-will-great-job-repairing-home/)? If you do the work yourself, do you have the experience to do it right and quickly?
* **What is the time frame**: Have you planned out how long the process will take and whether it is realistic? [It will probably take longer than three months to flip a house](https://investfourmore.com/2014/05/06/long-take-fix-flip-home/).

In a fix and flip partnership, a typical split is the person who provides the money gets 50% of the profits and the person who does all the work gets 50%. Don’t expect your money partner on a flip deal to find the deal, find the contractor, or handle the sale. What would they need you for?

If you are splitting up the money and the work portion of the flip, it can get much more difficult. If you decide each partner will pay 50% of the costs and do 50% of the work, it can be tough keeping track of hours and finances. Most people who enter partnerships like this have jobs and try to do the work on the side. One partner ends up doing more work than the other and gets frustrated. Or one partner puts more money in than the other and gets frustrated. The key is to make sure everything is in writing.

### How does a partnership work with rental properties?

Rental property partnerships can be even trickier than fix-and-flip partnerships. I have had hundreds of rentals and I don’t have partners on those properties either anymore. The tough part is knowing how the partnership will progress through time. One partner may want to cash out in five years while another wants to hold the properties for 30 years.

It is also a little tougher figuring the returns on rental properties. When flipping, you know what the profit is after a flip. With rentals, you have equity pay-down, [tax advantages](https://investfourmore.com/2014/06/06/tax-advantages-rental-properties/), appreciation, and cashflow. Some of these returns are seen in the form of cash in your pocket like cashflow. Other returns like appreciation and equity pay-down are not seen unless the home is sold or refinanced. Not only do you have to come up with a percentage of the actual profits (cashflow) that will be split, but you have to come up with a percentage of the equity that will be split if the properties are sold or if one partner wants to sell out and the other wants to keep the properties.

Things to consider with a partner on rental properties:

* **Who does the work**: Will both partners work to find properties or will one do all the work? How will repairs and maintenance be handled? Who will screen tenants or will a [property manager be used?](https://investfourmore.com/2014/10/20/hard-manage-rental-properties-without-property-manager/)
* **How much money will each partner put in**: Will one partner put in all the money and the other do all the work? Will it be a mix of money and work?
* **What percentage of the profits will each partner take**: It can be very tough figuring profits with rentals. You will have up and down cashflow months and houses can be depreciated. With depreciation, tax returns will show less profit than you actually make. You also need to have [reserves in place for maintenance and vacancies](https://investfourmore.com/2014/07/14/much-money-need-reserves-rental-properties/). You have to decide what each partner’s role is worth and how profits will be split.
* **What percentage of equity does each partner get**: When you get a mortgage on a property the equity will slowly increase as payments are made and the house might appreciate as well. If you bought the property below market value you also increase equity. That equity does not do good unless you sell or [refinance](https://investfourmore.com/2013/09/06/how-does-a-cash-out-refinance-on-rental-properties-work/), but you need to figure out what percentage each partner gets if you sell or refinance.
* **What happens if one partner wants out**: The biggest problem with rental properties and partnerships is ending the relationship. How long do you plan to own the property together? What if one partner needs money and wants out? What if the house doesn’t make as much money as you thought and a partner wants out? You have to figure out how to end the relationship before the partnership starts, deciding what will happen if one partner wants out.

As you can see it can be very tricky handling a partnership with rental properties. Determining the amount of work each person is responsible for is tough, determining an exit strategy is tough, and determining what percentages each investor gets… and when… is also tough.

If you decide to enter a partnership, everything has to be in writing. I don’t care if your partnership is with your brother or your best friend, it should be in writing. There are multiple reasons why everything should be in writing.

* **People forget things**: It would seem you would never forget the details of a partnership that involves thousands of dollars, but it happens. Put everything in writing so there are no mistakes or fall-outs from simply forgetting the terms.
* **Partners need to know roles**: If you are doing a flip with a partner and decide to share the work, how much time will each person put in? One partner may have a family emergency or may have to work overtime. How many hours will each person put in and what are the consequences if they don’t pull their weight? One of the biggest problems is one partner thinks he does all the work while the other collects the profit without doing anything.
* **Exit strategies**: With rental properties you have to know what happens if one partner wants to be bought out or has to sell. How is market value determined, how will costs be split, etc.? With a flip, what happens if you decide not to flip the house because the market changed?
* **Use of professional services**: If one partner is a contractor or real estate agent, how will they be paid for their services? Will they get a higher percentage of the profits for their expertise or [for saving money on commissions?](https://investfourmore.com/2013/03/05/why-you-should-become-a-real-estate-agent-if-you-want-to-invest-in-rental-properties/) Will the contractor or agent be paid like they would at any other job?
* **Rates, terms, payoffs**: If you are borrowing money from a partner, all the terms of the loan or agreement need to be in writing. Some agreements are a pure profit split, but others might involve private money lending with interest rates, length of the note, etc.
* **Decision making:** Who has the final say on how much money to spend, how to repair a house, what properties to buy, etc.? What happens if the partners don’t agree? This is another big issue that can cause problems if not in writing.

A huge issue with partnerships is when one side either forgets or does not live up to agreed upon obligations. If you have it in writing what the obligations are and what happens if those obligations are not met it will make a partnership much more successful. The partners will have more motivation to work hard and it will be easier to handle problems when they come up.

Many people ask me how to structure a partnership when they collaborate on rental properties. One question was:

“We have the money and knowledge to buy rentals, but we have the opportunity to partner up with another investor, so how do we structure it?”

My answer: Why do you need a partner? Why bring someone in to share the profits on a deal when you have the money and know-how? You will make much more money on real estate deals when you do not have a partner. The purpose of a partner is to provide something that you cannot or do not want to provide. You give up some of the profits to spend less of your own money, use someone’s time or their expertise. If you don’t need any of those things, don’t give up your profits!

I also see many people who are looking for a partner or a mentor to help them start investing. The problem is they want someone to show them how to buy houses, fix them up, find great deals and make a ton of money. But the person looking to be taught how to invest is offering nothing back to the investor, except for a willingness to work hard.

I have this partnership proposed to me over and over and almost every time there are huge problems on my side of the deal.

1. When I ask the person who wants help what they can offer me in return, they say determination, hard work, etc., but they list no specific skills. What can you do better than other people who will help me become more successful or help the deal be more successful? Are you good with computers? Do you have carpentry skills? Are you an expert marketer? Willingness to learn and work hard is not a skill and something everyone says they have. If you want to impress someone, be as specific as possible about how you will help them make more money.

2. Most successful investors do not have time to train someone about the entire process of investing. They also may not want to train someone to compete with themselves! Don’t be put off if an investor does not want to mentor you, because it is a very involved process that takes time. Paying for knowledge and experience is also an option and shows you are serious. Most people who want free help and have nothing to offer in return won’t even use that help if they get it and it becomes a giant waste of time for everyone.

3. Many aspiring investors looking for a mentor will want someone to tell them how to do everything. I have had people come to me saying, “How do I make money flipping houses?” Well, I could write a book on that and still not answer all of your questions ([actually I did write a book](https://www.amazon.com/dp/B00M8LEZWI) on flipping titled “Flipping For Profit Without The Risk”). I point out articles for people to read or point them toward my book but they don’t want to take the time to read the articles or pay $20 for a book. They want everything done for them without doing any work. If you want to impress a potential partner or mentor, do your research and learn as much as you possibly can. The more knowledge you have, the better chance you have of impressing someone enough to help you.

If you want to be a partner in a real estate deal you must have something to offer. You need to bring money, expertise, skills, or pay for the opportunity. There are no shortcuts in becoming a successful real estate investor.

## Conclusion

Partnerships can be a great way to get started if you need help. Partnerships can also be a nightmare if you do not have roles clearly defined or everything in writing. Partnerships also evolve and you may have to be flexible as people’s priorities in life change. My partnership with my colleague Vince changed over the years until I ended up buying him out. We had everything in writing when we made changes and that helped things go smoothly.

If you enter a partnership, make sure you take the time to set it up right. If you don’t need a partner it sure is nice having complete control… and all the profits.